

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Milan Area Schools	County Washtenaw
Audit Date June 30, 2005	Opinion Date August 26, 2005	Date Accountant Report Submitted to State: November 8, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

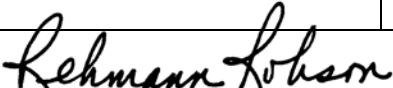
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Zip 48605		Accountant Signature 	

Milan Area Schools

Milan, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2005**



REHMANN ROBSON

Certified Public Accountants

MILAN AREA SCHOOLS

For the Year Ended June 30, 2005

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MILAN AREA SCHOOLS

For the Year Ended June 30, 2005

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 26, 2005

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **MILAN AREA SCHOOLS**, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Milan Area Schools, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milan Area Schools' basic financial statements. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Milan Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of Milan Area Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$1,100,493) (*net assets*).
- The government's total net assets decreased by \$1,373,334.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,981,593, a decrease of \$804,984 in comparison with the prior year. Approximately 91% or \$1,794,259, is *available for spending* at the government's discretion (*unreserved fund balance*). The majority of the available funds are in the 2002 Debt Service Fund.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$157,500 or .9% percent of total general fund expenditures.
- Investments for the future were made by the spending of \$927,759 on final construction of a new high school, furnishing of the new high school and remodeling of existing schools, with emphasis on technology in all buildings. These improvements were financed with proceeds from debt issued in 2000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics and community service. The District has no business-type activities as of and for the year ended June 30, 2005.

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the 2002 Debt Service Fund and the 2000 Capital Projects Fund, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement is provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 18-19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-34 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 35-36 of this report. Combining statements schedules for fiduciary funds are found on page 37 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by (\$1,100,493) at the close of the most recent fiscal year.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Assets		
<u>Governmental Activities</u>		
	<u>2004-05</u>	<u>2003-04</u>
Current and other assets	\$ 9,623,139	\$ 9,659,686
Capital assets, net	<u>58,611,303</u>	<u>59,817,399</u>
Total assets	<u>68,234,442</u>	<u>69,477,085</u>
Long-term liabilities outstanding	61,570,644	62,226,014
Other liabilities	<u>7,764,291</u>	<u>6,978,230</u>
Total liabilities	<u>69,334,935</u>	<u>69,204,244</u>
Net assets:		
Invested in capital assets, net of related debt	(1,853,912)	(573,262)
Restricted	892,068	1,452,749
Unrestricted	<u>(138,649)</u>	<u>(606,646)</u>
Total net assets	<u>\$ (1,100,493)</u>	<u>\$ 272,841</u>

The District currently has a negative net asset balance. In other words, if all of our liabilities were due on 6/30/05, liquidation of all capital assets would not be sufficient to meet our obligations.

It is not unusual for school districts, such as Milan, that participate in the Michigan School Bond Loan Program to achieve a negative net asset balance. This borrowing allows the district to consistently levy 8.04 mills for debt service. When yearly tax collections for debt retirement exceed interest and principal due, the district will continue to levy 8.04 mills for debt service, using the excess tax collections to repay the School Bond Loan Fund. Since net assets invested in capital assets are stated net of related debt, increasing debt reduces this category of net assets as stated.

Another aspect of long-term debt that drives down net assets is compensated absences payable. These are sick and vacation days accumulated by employees which would be payable if all employees were to resign on 6/30/05. That unlikely scenario creates an accrued liability of \$745,697, which reduces the district's unrestricted net assets.

In addition to total net assets, another indicator of the district's financial position is unrestricted net assets. The previous table reflects that unrestricted net assets increased in 2004-2005, from (\$606,646) to (\$138,649). While still a negative balance the change indicates that apart from increased borrowing from the School Bond Loan Fund the district is actually moving in a positive direction.

The government's total net assets decreased by \$1,373,334, during the current fiscal year. The net decrease is the result of multiple factors both increasing and decreasing net assets.

District's Changes in Net Assets
Governmental Activities

	<u>2004-05</u>	<u>2003-04</u>
Revenue:		
Program revenue:		
Charges for services	\$ 796,822	\$ 737,581
Operating grants and contributions	2,655,723	2,406,295
General revenue:		
Property taxes	5,966,960	6,076,108
State school aid	12,920,049	12,218,490
Grants and contributions not restricted to specific programs	511,542	310,007
Unrestricted investment earnings	187,852	447,534
Gain on Sale of capital assets	4,843	
Total revenue	<u>23,043,791</u>	<u>22,196,015</u>

Expenses:

Instruction	\$ 10,665,955	\$ 9,955,763
Support services	7,770,242	11,003,075
Community service	68,750	2,102
Athletics	348,923	395,336
Food service	761,862	757,762
Interest on long-term debt	2,931,990	3,110,190
Unallocated depreciation	<u>1,869,403</u>	<u>1,560,518</u>
Total expenses	<u>24,417,125</u>	<u>26,784,746</u>
Change in net assets	(1,373,334)	(4,588,731)
Net assets, beginning of year	<u>272,841</u>	<u>4,861,572</u>
Net assets, end of year	<u>\$ (1,100,493)</u>	<u>\$ 272,841</u>

Governmental activities. Net assets decreased by \$1,373,334. The key elements of this decrease are as follows:

- Expenditures in the 2000 capital projects fund of \$927,759. Of that amount \$260,000 of expenditures were for items below the capitalization threshold of \$5,000. Those expenditures reduce the fund balance with no corresponding increase in capital assets, thereby reducing net assets.
- Depreciation expense of \$1,869,403. Depreciation reduces the stated value of capital assets, also reducing net assets.
- \$1,037,885 (including interest) borrowed from the School Bond Loan Fund to pay the excess of current interest and principal due on bonds over the tax collections for debt service. Since these borrowings increase debt without increasing capital assets, the current effect is a reduction in net assets.
- Debt payments of \$2,000,000 served to reduce long-term debt. As mentioned above, net assets invested in capital assets are stated net of related debt. Reducing long-term debt saves this category of net assets from further reduction.

Financial Analysis of the Government's Funds

As noted earlier, the district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,981,593, a decrease of \$804,984 in comparison with the prior year. Approximately 91% of this total amount (\$1,794,259) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is either reserved for a specific program or not available for new spending because the underlying assets are included in inventory and prepaid expenses and are not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$157,500, while total general fund balance was \$338,240. As a measure of the general fund's liquidity, it is useful to compare unreserved fund balance to total general fund expenditures. Unreserved fund balance represents less than 1 percent of total general fund expenditures. An unreserved fund balance of 10-15 % is generally recommended.

The fund balance of the District's general fund increased by \$134,342 during the current fiscal year., while the unreserved fund balance increased by \$85,823. This was made possible in spite of rising costs by freezing wages (except for step increases), cutting supply and materials budgets, reducing support services and restructuring teaching and administrative assignments.

The 2002 debt service fund has a total fund balance of \$1,035,369, unreserved, which is slightly higher than the previous year. A high balance is maintained in the 2002 debt fund to make monthly interest payments in the summer months prior to summer tax collections.

The 2000 capital projects fund incurred \$927,759 in project expenses during the year. The project was deemed substantially complete at 6/30/04, with a remaining balance of \$1,129,930 available for final construction costs and equipment purchases. The balance at 6/30/05 is \$359,732. The remaining funds will be used for completion of ongoing projects, continued investment in technology, and other needs as they are recognized.

General Fund Budgetary Highlights

There were several noteworthy changes between the original and final amended budgets. Revenues increased due to increased enrollment and the passage of a county-wide special education millage. Increased enrollment resulted in corresponding increases in instructional costs and pupil services. A prior period valuation adjustment to a local Visteon plant resulted in a property tax refund which increased expense to business services. That expense was offset by a prior period adjustment to state aid. Rising utility costs increased the maintenance budget. Once additional information was known, subsequent budget amendments recognized the additional revenue and expense.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2005, amounted to \$58,611,303 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. This reflects a decrease of \$1,206,096 from the previous year. While the district continued to spend down the balance of the 2000 capitol projects fund, some purchases were under the \$5,000 capitalization threshold. Increases of \$663,307 were more than offset by depreciation expense of \$1,869,403.

The major capital asset events during the current fiscal year were the following:

- High School:
 - Finish HVAC/remodeling - \$211,248
 - 15 32 Pad Systems – \$25,500
 - Rack equipment system with 6 community monitor speakers & Mackie 24 channel mixing console – \$9,675
 - Digital video recorder, 16 camera w/CDRW - \$7,628
 - Radio & TV Station - \$205,613
 - Infrared system w/collar mic - \$5,040
- Middle School:
 - Softeners OFLX - \$11,285
- Grasshopper mower - \$9,950
- Two new buses - \$122,496

District's Capital Assets		
	<u>6/30/05</u>	<u>6/30/04</u>
Capital Assets not being depreciated:		
Land	\$ 1,607,945	\$ 1,607,945
Capital assets being depreciated (net of depreciation)		
Site Improvements	3,329,329	3,537,849
Buildings	51,446,286	52,330,028
Vehicles	453,580	430,784
Equipment	<u>1,774,163</u>	<u>1,910,793</u>
Total	<u>\$ 58,611,303</u>	<u>\$ 59,817,399</u>

Additional information on the District's capital assets can be found in note III.C on page 28 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$57,872,915.

The District's total debt decreased by \$655,370, (approximately 1%) during the current fiscal year.

Additional information on the District's long-term debt can be found in note III.F on pages 30-32 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2005-06 fiscal year:

- After two years of reduced foundation grants the foundation grant allowance for 2004-05 was restored to \$6,700. For 2005-06 the foundation grant is projected to increase by \$175 to \$6,875.
- The district expects to continue the trend of moderate growth in the student population.
- The District has negotiated three year labor agreements that expire on June 30, 2007 (teachers, support staff (secretarial, teacher aides and custodial) and bus drivers)). After accepting a wage freeze in 2004-2005 (excluding step increases) all groups will receive 2% raises (in addition to step raises) in 2005/06, with an additional .5% raise if the blended pupil count from September 2004 to September 2005 increases by 26 or more F.T.E.'s.
- The district offered a \$30,000 retirement incentive to teachers/administrators retiring as of 6/30/05. Nine employees accepted the incentive allowing the district to hire replacements at reduced cost to the district.
- The retirement rate is scheduled to increase from 14.87% of gross wages to 16.34% on 10/1/05.
- We will continue to budget for increases in utility, health insurance and property and casualty insurance expense.
- Increased enrollment and the passage of the county-wide special education millage in the fall of 2004, allowed us to restore some but not all of the reductions in our 2004-05 preliminary budget.
- We continue to expect steady growth over the next five to ten years. We are dependent on that growth and future increases in the foundation grant allowance to generate the increased revenue needed to restore supply budgets, increase curriculum spending, continue to replace two buses per year, maintain adequate building and maintenance repair budgets, recall all employees on lay-off and reduce class sizes. In addition it is our goal to steadily increase our unreserved fund balance from less than 1% to the generally recommended 10-12%.

Inflationary trends in the region compare favorably to national indices.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent , 100 Big Red Drive, Milan, Michigan 48160.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 6,189,275
Receivables	3,263,030
Prepaid items and other assets	170,834
Capital assets not being depreciated	1,607,945
Capital assets being depreciated, net	<u>57,003,358</u>
Total assets	<u>68,234,442</u>
Liabilities	
Accounts payable and accrued liabilities	4,402,006
State aid note payable	3,250,100
Unearned revenue	112,185
Noncurrent liabilities:	
Due within one year	2,148,858
Due in more than one year	<u>59,421,786</u>
Total liabilities	<u>69,334,935</u>
Net assets	
Invested in capital assets, net of related debt	(1,763,912)
Restricted for:	
Debt service	681,736
Construction projects	114,875
Other purposes	95,457
Unrestricted (deficit)	<u>(228,649)</u>
Total net assets	<u><u>\$ (1,100,493)</u></u>

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Activities
For the Year Ended June 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 10,665,955	\$ 277,013	\$ 2,306,605	\$ (8,082,337)
Supporting services	7,770,242	-	-	(7,770,242)
Community service	68,750	-	-	(68,750)
Athletics	348,923	-	91,123	(257,800)
Food service	761,862	519,809	237,107	(4,946)
Interest on long-term debt	2,931,990	-	20,888	(2,911,102)
Unallocated depreciation	1,869,403	-	-	(1,869,403)
Total	<u>\$ 24,417,125</u>	<u>\$ 796,822</u>	<u>\$ 2,655,723</u>	<u>(20,964,580)</u>
General revenues:				
Property taxes				5,966,960
Unrestricted state aid				12,920,049
Grants and contributions not restricted to specific programs				511,542
Unrestricted investment earnings				187,852
Gain on sale of capital assets				4,843
Total general revenues				<u>19,591,246</u>
Change in net assets				(1,373,334)
Net assets, beginning of year, as restated				<u>272,841</u>
Net assets, end of year				<u>\$ (1,100,493)</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2005

			2000	Other	
	General	2002	Capital	Governmental	Totals
<u>ASSETS</u>		Debt Service	Projects	Funds	
Assets					
Cash and cash equivalents	\$ 2,157,195	\$ 1,033,663	\$ 2,735,019	\$ 263,398	\$ 6,189,275
Accounts receivable	163,576	-	-	-	163,576
Taxes receivable	2,337	1,706	-	2,052	6,095
Due from other governments	2,868,444	-	-	224,915	3,093,359
Due from other funds	5,714	-	-	11,234	16,948
Inventory	6,290	-	-	6,594	12,884
Prepaid expenditures	157,950	-	-	-	157,950
<u>TOTAL ASSETS</u>	<u>\$ 5,361,506</u>	<u>\$ 1,035,369</u>	<u>\$ 2,735,019</u>	<u>\$ 508,193</u>	<u>\$ 9,640,087</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 161,715	\$ -	\$ -	\$ 49,532	\$ 211,247
Accrued expenditures	87,000	-	2,375,287	-	2,462,287
Salaries and benefits payable	1,315,874	-	-	21,045	1,336,919
Due to other funds	11,234	-	-	5,714	16,948
Deferred revenue	197,343	-	-	183,650	380,993
Notes payable	3,250,100	-	-	-	3,250,100
Total liabilities	5,023,266	-	2,375,287	259,941	7,658,494
Fund balances					
Reserved for inventory	6,290	-	-	6,594	12,884
Reserved for prepaid expenditure:	157,950	-	-	-	157,950
Reserved for MSRP Preschool Program	16,500				16,500
Unreserved:					
Undesignated	157,500	1,035,369	359,732	-	1,552,601
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	88,863	88,863
Debt service funds	-	-	-	37,920	37,920
Capital projects funds	-	-	-	114,875	114,875
Total fund balances	338,240	1,035,369	359,732	248,252	1,981,593
<u>TOTAL LIABILITIES</u>	<u>\$ 5,361,506</u>	<u>\$ 1,035,369</u>	<u>\$ 2,735,019</u>	<u>\$ 508,193</u>	<u>\$ 9,640,087</u>
<u>AND FUND BALANCES</u>					

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds	\$ 1,981,593
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	69,305,099
Deduct: accumulated depreciation	(10,693,796)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	268,808
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds and loans payable	(63,852,771)
Add: unamortized bond issuance costs	462,498
Add: unamortized loss on refunding	2,830,167
Deduct: unamortized bond premium	(174,841)
Deduct: accrued interest on bonds payable	(391,553)
Deduct: compensated absences	(745,697)
Deduct: early retirement incentives	(90,000)

Net assets of governmental activities	<u><u>\$ (1,100,493)</u></u>
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The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General	2002 Debt Service	2000 Capital Projects	Other Governmental Funds	Totals
Revenue					
Local sources	\$ 4,359,207	\$ 2,169,248	\$ 157,561	\$ 1,981,899	\$ 8,667,915
State sources	13,429,492	-	-	52,732	13,482,224
Federal sources	733,065	-	-	184,375	917,440
			-		
Total revenue	18,521,764	2,169,248	157,561	2,219,006	23,067,579
Expenditures					
Education:					
Instruction	10,834,064	-	-	-	10,834,064
Support services	7,243,640	-	-	-	7,243,640
Food service activities	-	-	-	761,057	761,057
Athletic programs	-	-	-	348,520	348,520
Debt service:			-		
Principal	-	185,000	-	1,815,000	2,000,000
Interest	63,248	1,954,634	-	624,407	2,642,289
Capital outlay	-	-	927,759	38,177	965,936
Total expenditures	18,140,952	2,139,634	927,759	3,587,161	24,795,506
Revenue over (under) expenditures	380,812	29,614	(770,198)	(1,368,155)	(1,727,927)
Other financing sources (uses)					
Proceeds from sale of capital assets	9,295	-	-	-	9,295
Issuance of long-term debt	-	-	-	913,648	913,648
Transfers in	-	-	-	255,765	255,765
Transfers out	(255,765)	-	-	-	(255,765)
Total other financing sources (uses)	(246,470)	-	-	1,169,413	922,943
Net change in fund balances	134,342	29,614	(770,198)	(198,742)	(804,984)
Fund balances, beginning of year	203,898	1,005,755	1,129,930	446,994	2,786,577
Fund balances, end of year	<u>\$ 338,240</u>	<u>\$ 1,035,369</u>	<u>\$ 359,732</u>	<u>\$ 248,252</u>	<u>\$ 1,981,593</u>

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$ (804,984)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	667,759
Deduct: depreciation expense	(1,869,403)
Add: proceeds from the sale of capital assets	(9,295)
Deduct: gain on disposal of capital assets	4,843

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on deferred long-term receivables	(28,631)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	2,000,000
Deduct: proceeds from issuance of long-term liabilities	(913,648)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds and loans	(113,230)
Add: amortization of bond issuance costs and loss on refunding	(176,471)
Deduct: increase in the accrual for compensated absences	(40,274)
Deduct: increase in early retirement incentives payable	(90,000)

Change in net assets of governmental activities	\$ <u>(1,373,334)</u>
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The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Over (under) Final Budget
Revenue				
Local sources	\$ 4,054,719	\$ 4,371,076	\$ 4,359,207	\$ (11,869)
State sources	12,781,729	13,357,035	13,429,492	72,457
Federal sources	701,464	758,853	733,065	(25,788)
Total revenue	17,537,912	18,486,964	18,521,764	34,800
Expenditures				
Instruction				
Basic programs	8,403,077	8,791,170	8,732,319	(58,851)
Added needs	1,354,665	1,311,981	1,298,735	(13,246)
Adult and continuing education	379,368	391,580	373,516	(18,064)
Latchkey	183,447	207,506	210,949	3,443
Transfers to other districts	213,430	217,471	218,545	1,074
Total instruction	10,533,987	10,919,708	10,834,064	(85,644)
Supporting services				
Grants	50,707	71,644	76,237	4,593
Pupil services	1,575,365	1,664,878	1,622,565	(42,313)
Instructional support	354,152	350,483	324,120	(26,363)
General administration	358,971	375,752	375,992	240
School administration	999,560	1,011,391	992,822	(18,569)
Business services	263,791	461,221	383,677	(77,544)
Operations and maintenance	2,177,041	2,419,280	2,408,235	(11,045)
Transportation	836,917	871,927	864,802	(7,125)
Central data processing	130,914	129,688	126,729	(2,959)
Staff services	5,843	5,500	516	(4,984)
Community Services	-	69,474	67,945	(1,529)
Total supporting services	6,753,261	7,431,238	7,243,640	(187,598)
Debt service				
Interest and fiscal charges	-	-	63,248	63,248
Total expenditures	17,287,248	18,350,946	18,140,952	(209,994)
Revenue over (under) expenditures	250,664	136,018	380,812	244,794
Other financing sources (uses)				
Proceeds from sale of capital assets	2,026	9,295	9,295	-
Transfers out	(251,707)	(249,170)	(255,765)	(6,595)
Total other financing sources (uses)	(249,681)	(239,875)	(246,470)	(6,595)
Net change in fund balance	983	(103,857)	134,342	238,199
Fund balances, beginning of year	19,185	203,898	203,898	-
Fund balances, end of year	\$ 20,168	\$ 100,041	\$ 338,240	\$ 238,199

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Private- Purpose Trust Fund</u>	
	<u>Scholarships</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 569,717	\$ 301,280
Liabilities		
Due to student groups	-	\$ 301,280
Net assets		
Unrestricted	<u>\$ 569,717</u>	

The accompanying notes are an integral part of these financial statements.

MILAN AREA SCHOOLS
Statement of Changes in Fiduiary Net Assets
Private-Purpose Trust Fund
For the Year Ended June 30, 2005

	<u>Scholarships</u>
Additions	
Contributions	\$ 10,225
Earnings on deposits and investments	<u>10,536</u>
Total assets	20,761
Deductions	
Scholarships	<u>60,277</u>
Decrease in net assets	(39,516)
Net assets, beginning of year	<u>609,233</u>
Net assets, end of year	<u><u>\$ 569,717</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

MILAN AREA SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Milan Area Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2005.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *2002 debt service fund* accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest payments on the 2002 refinanced bonds.

The *2000 capital projects fund* accounts for the construction of a new elementary level building, as well as, the acquisition of capital assets and the renovation of certain other District facilities. These projects are funded by a general obligation unlimited tax bond issue.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations, specifically, athletics and food service.

The *debt service funds* are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities and improvements.

The *private-purpose trust funds* account for amounts entrusted to the District for scholarship awards and similar trust activities.

MILAN AREA SCHOOLS

Notes to the Financial Statements

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. *Deposits and investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

3. *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

MILAN AREA SCHOOLS

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	25-50
Equipment	5-20
Licensed vehicles	8

5. *Compensated absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Employees accrue 10-13 days of sick leave, per year, which accumulates if not used. Sick time is paid upon termination only to employees who have ten or more years of service with the District. The maximum payout upon termination varies, depending on the employee's classification (teacher, administrator, etc.).

Administrators and other support staff working year-round accrue vacation time in varying amounts. Teachers and other personnel working less than twelve months during the year do not receive paid vacation time, but are paid only for the number of days they are required to work each year. Upon termination, an employee may elect to receive the unused portion of his/her vacation time in cash.

MILAN AREA SCHOOLS

Notes to the Financial Statements

6. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received in debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted annually on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

All annual appropriations lapse at fiscal year end.

MILAN AREA SCHOOLS

Notes to the Financial Statements

B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2005, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Instruction:			
Latchkey	\$ 207,506	\$ 210,949	\$ 3,443
Transfers to other districts	217,471	218,545	1,074
Supporting services:			
Grants	71,644	76,237	4,593
General administration	375,752	375,992	240
Debt service:			
Interest and fiscal charges	-	63,248	63,248
Other financing uses:			
Transfers out	249,170	255,765	6,595

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Cash and cash equivalents	\$ 6,189,275
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Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>870,997</u>
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\$ 7,060,272

Cash on hand	\$ 241
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Deposits	1,817,680
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Investments	<u>5,242,351</u>
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\$ 7,060,272

MILAN AREA SCHOOLS

Notes to the Financial Statements

Statutory Authority

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allow for all of these types of investments.

Deposits and investments

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Checking/savings accounts	n/a	\$ 1,817,680	n/a
Bank One Money Market Fund	n/a	1,484,942	n/a
Comerica Money Market Fund	n/a	2,697,991	n/a
Michigan Liquid Asset Fund (MILAF)	n/a	561,938	S&P-AAAm
National City Short-Term Investment	n/a	361	n/a
Standard Federal Corporate Trust	n/a	<u>497,119</u>	n/a
		<u>\$ 7,060,031</u>	

MILAN AREA SCHOOLS

Notes to the Financial Statements

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings on investments are noted above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,725,635 of the District's bank balance of \$1,827,247 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	2002 Debt Service	Other Governmental Funds	Totals
Accounts receivable	\$ 163,576	\$ -	\$ -	\$ 163,576
Taxes receivable	2,337	1,706	2,052	6,095
Due from other governments	2,868,444	-	224,915	3,093,359
	<u>\$ 3,034,357</u>	<u>\$ 1,706</u>	<u>\$ 226,967</u>	<u>\$ 3,263,030</u>

MILAN AREA SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	<u>\$ 1,607,945</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,607,945</u>
Capital assets being depreciated:				
Land improvements	5,491,652	-	-	5,491,652
Buildings and improvements	57,817,124	270,572	-	58,087,696
Equipment	2,684,289	274,691	6,678	2,952,302
Vehicles	1,043,008	122,496	-	1,165,504
Total capital assets being depreciated	<u>67,036,073</u>	<u>667,759</u>	<u>6,678</u>	<u>67,697,154</u>
Less accumulated depreciation for:				
Land improvements	1,953,803	208,520	-	2,162,323
Buildings and improvements	5,487,096	1,154,314	-	6,641,410
Equipment	773,496	406,869	2,226	1,178,139
Vehicles	612,224	99,700	-	711,924
Total accumulated depreciation	<u>8,826,619</u>	<u>1,869,403</u>	<u>2,226</u>	<u>10,693,796</u>
Total capital assets being depreciated, net	<u>58,209,454</u>	<u>(1,201,644)</u>	<u>4,452</u>	<u>57,003,358</u>
Governmental activities capital assets, net	<u>\$ 59,817,399</u>	<u>\$ (1,201,644)</u>	<u>\$ 4,452</u>	<u>\$ 58,611,303</u>

Depreciation expense of \$1,869,403 was charged to the function "Unallocated Depreciation", and not allocated to other functions.

MILAN AREA SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General	2000 Capital Projects	Other Governmental Funds	Totals
Accounts payable	\$ 161,715	\$ -	\$ 49,532	\$ 211,247
Accrued expenditures	87,000	2,375,287	-	2,462,287
Salaries and benefits payable	1,315,874	-	21,045	1,336,919
	<u>\$ 1,564,589</u>	<u>\$ 2,375,287</u>	<u>\$ 70,577</u>	<u>4,010,453</u>
Accrued interest on long-term debt				<u>391,553</u>
Governmental activities				<u>\$ 4,402,006</u>

E. Interfund receivables, payables and transfers

At June 30, 2005, interfund receivables and payables consisted of the following:

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 5,714	\$ 11,234
Nonmajor governmental funds	<u>11,234</u>	<u>5,714</u>
	<u>\$ 16,948</u>	<u>\$ 16,948</u>

The District often reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

MILAN AREA SCHOOLS

Notes to the Financial Statements

For the year ended June 30, 2005, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 255,765	\$ -
Nonmajor governmental funds	<u>-</u>	<u>255,765</u>
	<u>\$ 255,765</u>	<u>\$ 255,765</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2005, the District transferred funds to subsidize the athletics program.

F. Long-term debt

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
General Obligation bonds	\$ 59,872,915	\$ -	\$ 2,000,000	\$ 57,872,915	\$ 2,118,858
Less:					
Unamortized bond issuance costs	(494,434)	-	(31,936)	(462,498)	-
Unamortized loss on refunding	(2,996,557)	-	(166,390)	(2,830,167)	-
Unamortized bond proceeds	196,696	-	21,855	174,841	-
School Bond loan fund	4,941,971	1,037,885	-	5,979,856	-
Compensated absences	705,423	40,274	-	745,697	-
Early retirement incentives	-	90,000	-	90,000	30,000
	<u>\$ 62,226,014</u>	<u>\$ 1,168,159</u>	<u>\$ 1,823,529</u>	<u>\$ 61,570,644</u>	<u>\$ 2,148,858</u>

Compensated absences and early retirement incentives are typically liquidated by the general fund.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Bonds payable at June 30, 2005, are comprised of the following issues:

General Obligation Bonds:

* \$286,311 1998 Durant School Improvement Bonds, due in annual installments of \$13,230 to \$19,191 through 2013; interest at 4.80%	\$ 182,915
\$49,915,000 2000 New construction of high school and remodeling to all existing buildings, due in annual installments at \$875,000 to \$1,150,000 through 2010; interest at 4.95% to 5.75%	5,150,000
2002 Refunding Bonds, due in annual installments of \$180,000 to \$2,290,000 through 2030; interest at 4.418%	\$ 44,190,000
2003 Refunding Bonds, due in annual installments of \$940,000 to \$1,070,000 through 2013, interest at 2.0% to 4.0%.	<u>8,350,000</u>
	<u>\$ 57,872,915</u>

- * The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 2,118,858	\$ 2,518,806	\$ 4,637,664
2007	2,194,515	2,441,118	4,635,633
2008	2,275,210	2,357,131	4,632,341
2009	2,370,934	2,258,723	4,629,657
2010	2,533,401	2,171,359	4,704,760
2011-2015	11,754,997	9,069,021	20,824,018
2016-2020	10,615,000	6,748,274	17,363,274
2021-2025	12,225,000	4,232,888	16,457,888
2026-2030	<u>11,785,000</u>	<u>1,547,182</u>	<u>13,332,182</u>
Totals	<u>\$ 57,872,915</u>	<u>\$ 33,344,502</u>	<u>\$ 91,217,417</u>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2005, are as follows:

MILAN AREA SCHOOLS

Notes to the Financial Statements

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 4,635,501	\$ 306,470	\$ 4,941,971
Additions	<u>913,648</u>	<u>124,237</u>	<u>1,037,885</u>
Ending balance	<u>\$ 5,549,149</u>	<u>\$ 430,707</u>	<u>\$ 5,979,856</u>

During the year, the District offered an early retirement incentive program to employees meeting certain eligibility criteria. The terms of this incentive will require the District to make annual payments of \$30,000 in fiscal years 2006, 2007 and 2008.

G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of property tax and State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2005, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
State aid note	<u>\$ 2,525,750</u>	<u>\$ 3,250,100</u>	<u>\$ 2,525,750</u>	<u>\$3,250,100</u>

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and is self-insured for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

An independent third party administers the District's self-insured workers' compensation program.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>2005</u>	<u>2004</u>
Accrued claims, beginning of year	\$ 87,000	\$ 79,000
Incurred claims	507,179	530,867
Claim payments	<u>(507,179)</u>	<u>(522,867)</u>
Accrued claims, end of year	<u>\$ 87,000</u>	<u>\$ 87,000</u>

MILAN AREA SCHOOLS

Notes to the Financial Statements

B. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of July 1 and December 1, and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14, and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

C. Defined benefit pension plan

Plan Description

The Milan Area Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Milan Area Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the Milan Area Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$1,678,503, \$1,564,736 and \$1,505,929, respectively, equal to the required contributions for each year.

Other Postemployment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

MILAN AREA SCHOOLS

Notes to the Financial Statements

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Bonded Construction Costs

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code.

E. Sinking Fund

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of §1212(1) of the Michigan Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

* * * * *

COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS

MILAN AREA SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005

	<u>Special Revenue</u>		<u>2000 Debt Service</u>
	<u>Athletics</u>	<u>Food Service</u>	
<u>ASSETS</u>			
Assets			
Cash and cash equivalents	\$ 2,943	\$ 109,712	\$ 23,441
Taxes receivable	-	-	1,281
Due from other governments	-	42,000	-
Due from other funds	-	11,234	-
Inventory	-	6,594	-
<u>TOTAL ASSETS</u>	<u>\$ 2,943</u>	<u>\$ 169,540</u>	<u>\$ 24,722</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ -	\$ 49,532	\$ -
Salaries and benefits payable	-	21,045	-
Due to other funds	-	5,714	-
Deferred revenue	-	735	-
Total liabilities	-	77,026	-
Fund balances			
Reserved for inventory	-	6,594	-
Unreserved, undesignated	2,943	85,920	24,722
Total fund balances	2,943	92,514	24,722
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 2,943</u>	<u>\$ 169,540</u>	<u>\$ 24,722</u>

<u>Debt Service</u>		<u>Capital</u>	
<u>2003</u>		<u>Projects</u>	
<u>Debt</u>	<u>Durant</u>	<u>Sinking</u>	
<u>Service</u>	<u>Debt Service</u>	<u>Fund</u>	<u>Total</u>
\$ 12,427	\$ -	\$ 114,875	\$ 263,398
771	-	-	2,052
-	182,915	-	224,915
-	-	-	11,234
-	-	-	6,594
<u>\$ 13,198</u>	<u>\$ 182,915</u>	<u>\$ 114,875</u>	<u>\$ 508,193</u>
\$ -	\$ -	\$ -	\$ 49,532
-	-	-	21,045
-	-	-	5,714
-	182,915	-	183,650
<u>-</u>	<u>182,915</u>	<u>-</u>	<u>259,941</u>
-	-	-	6,594
<u>13,198</u>	<u>-</u>	<u>114,875</u>	<u>241,658</u>
<u>13,198</u>	<u>-</u>	<u>114,875</u>	<u>248,252</u>
<u>\$ 13,198</u>	<u>\$ 182,915</u>	<u>\$ 114,875</u>	<u>\$ 508,193</u>

MILAN AREA SCHOOLS
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	<u>Special Revenue</u>		<u>2000</u>
	<u>Athletics</u>	<u>Food Service</u>	<u>Debt Service</u>
Revenue			
Local sources:			
Taxes	\$ -	\$ -	\$ 894,160
Earnings from investments and deposits	-	3,149	9,808
Food sales	-	519,809	-
Athletic admissions	91,123	-	-
Other local revenue	-	555	-
State aid	-	52,732	-
Federal sources	-	184,375	-
Total revenue	<u>91,123</u>	<u>760,620</u>	<u>903,968</u>
Expenditures			
Food service activities	-	761,057	-
Athletic programs	348,520	-	-
Debt service:			
Principal repayment	-	-	875,000
Interest and fiscal charges	-	-	324,606
Capital outlay	-	-	-
Total expenditures	<u>348,520</u>	<u>761,057</u>	<u>1,199,606</u>
Revenue over (under) expenditures	<u>(257,397)</u>	<u>(437)</u>	<u>(295,638)</u>
Other financing sources (uses)			
Issuance of long-term debt	-	-	152,767
Transfers in	255,765	-	-
Total other financing sources (uses)	<u>255,765</u>	<u>-</u>	<u>152,767</u>
Net change in fund balances	(1,632)	(437)	(142,871)
Fund balances, beginning of year	<u>4,575</u>	<u>92,951</u>	<u>167,593</u>
Fund balances, end of year	<u>\$ 2,943</u>	<u>\$ 92,514</u>	<u>\$ 24,722</u>

Debt Service		Capital	
2003		Projects	
Debt	Durant	Sinking	
Service	Debt Service	Fund	Total
\$ 456,474	\$ -	\$ 24	\$ 1,350,658
-	-	2,460	15,417
-	-	-	519,809
-	-	-	91,123
4,337	-	-	4,892
-	-	-	52,732
-	-	-	184,375
<u>460,811</u>	<u>-</u>	<u>2,484</u>	<u>2,219,006</u>
-	-	-	761,057
-	-	-	348,520
940,000	-	-	1,815,000
299,801	-	-	624,407
-	-	38,177	38,177
<u>1,239,801</u>	<u>-</u>	<u>38,177</u>	<u>3,587,161</u>
<u>(778,990)</u>	<u>-</u>	<u>(35,693)</u>	<u>(1,368,155)</u>
760,881	-	-	913,648
-	-	-	255,765
<u>760,881</u>	<u>-</u>	<u>-</u>	<u>1,169,413</u>
(18,109)	-	(35,693)	(198,742)
<u>31,307</u>	<u>-</u>	<u>150,568</u>	<u>446,994</u>
<u>\$ 13,198</u>	<u>\$ -</u>	<u>\$ 114,875</u>	<u>\$ 248,252</u>

MILAN AREA SCHOOLS
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

	Agency Funds			
	Elementary School Activities	Middle School Activities	High School Activities	Total
Assets				
Cash and cash equivalents	\$ 104,633	\$ 98,934	\$ 97,713	\$ 301,280
Liabilities				
Due to student groups	\$ 104,633	\$ 98,934	\$ 97,713	\$ 301,280

MILAN AREA SCHOOLS
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2005

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of Year</u>
Elementary School Activities				
Assets				
Cash and cash equivalents	<u>\$ 87,120</u>	<u>\$ 69,261</u>	<u>\$ 51,748</u>	<u>\$ 104,633</u>
Liabilities				
Due to student groups	<u>\$ 87,120</u>	<u>\$ 69,261</u>	<u>\$ 51,748</u>	<u>\$ 104,633</u>
Middle School Activities				
Assets				
Cash and cash equivalents	<u>\$ 100,576</u>	<u>\$ 138,799</u>	<u>\$ 140,441</u>	<u>\$ 98,934</u>
Liabilities				
Due to student groups	<u>\$ 100,576</u>	<u>\$ 138,799</u>	<u>\$ 140,441</u>	<u>\$ 98,934</u>
High School Activities				
Assets				
Cash and cash equivalents	<u>\$ 110,058</u>	<u>\$ 175,635</u>	<u>\$ 187,980</u>	<u>\$ 97,713</u>
Liabilities				
Due to student groups	<u>\$ 110,058</u>	<u>\$ 175,635</u>	<u>\$ 187,980</u>	<u>\$ 97,713</u>
Total - All Activities				
Assets				
Cash and cash equivalents	<u>\$ 297,754</u>	<u>\$ 383,695</u>	<u>\$ 380,169</u>	<u>\$ 301,280</u>
Liabilities				
Due to student groups	<u>\$ 297,754</u>	<u>\$ 383,695</u>	<u>\$ 380,169</u>	<u>\$ 301,280</u>

SINGLE AUDIT

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Agriculture							
Direct Program - Food Distribution:							
Entitlement Commodities	10.550	-n/a-	20,332	\$ -	\$ 20,332	\$ 20,332	\$ -
Bonus Commodities	10.550	-n/a-	3,123	-	3,123	3,123	-
				-	23,455	23,455	-
Passed-through Michigan Department of Education:							
2003-2004 School Breakfast	10.553	041970	-	4,135	4,135	-	-
2004-2005 School Breakfast	10.553	051970	23,843	-	23,843	23,843	-
				4,135	27,978	23,843	-
National School Lunch:							
2003-2004 Section 4	10.555	041950	-	5,391	5,391	-	-
2004-2005 Section 4	10.555	051950	40,188	-	40,188	40,188	-
2003-2004 Section 11	10.555	041960	-	12,110	12,110	-	-
2004-2005 Section 11	10.555	051960	96,889	-	96,889	96,889	-
				17,501	154,578	137,077	-
Total U.S. Department of Agriculture				21,636	206,011	184,375	-
U.S. Department of Education							
Passed-through Michigan Department of Education:							
2004-2005 Adult Basic Education Instruction	84.002	051130-510665	5,000	-	5,000	5,000	-
2004-2005 ABE Institutional Programs	84.002	051190-510665	125,000	-	90,161	125,000	34,839
				-	95,161	130,000	34,839
2003-2004 Title I, Part A	84.010	041530-0304	106,605	21,752	21,752	-	-
2004-2005 Title I, Part A	84.010	051530-0405	90,029	-	49,443	90,029	40,586
				21,752	71,195	90,029	40,586
2004-2005 Title V, Part A	84.298	050250-0405	1,317	-	1,317	1,317	-
2004-2005 Title II, Part D	84.318	054290-0405	2,288	-	2,288	2,288	-
2003-2004 Title II, Part A	84.367	040520-0304	39,273	20,624	20,624	-	-
2004-2005 Title II, Part A	84.367	040520-0405	24,957	-	13,025	24,957	11,932
2004-2005 Title II, Part A	84.367	050520-0505	62,504	-	22,922	36,716	13,794
				20,624	56,571	61,673	25,726
Passed-through Livingston Educational Service Agency:							
2004-2005 Drug-Free Schools	84.186	SDFSCA	6,939	-	-	6,939	6,939

continued...

MILAN AREA SCHOOLS
Schedule of Expenditures of Federal Awards (concluded)
For the Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Approved Award/Grant Amount	Accrued Revenue Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued Revenue End of Year
U.S. Department of Education (concluded)							
Passed-through Washtenaw Intermediate School District:							
2003-2004 IDEA Flowthrough	84.027	F52	368,054	\$ 122,122	\$ 122,122	\$ -	\$ -
2004-2005 IDEA Flowthrough	84.027	F52	422,775	-	208,545	422,775	214,230
2003-2004 Capacity Building	84.027	CB	5,082	5,082	5,082	-	-
				<u>127,204</u>	<u>335,749</u>	<u>422,775</u>	<u>214,230</u>
2003-2004 Preschool Incentive	84.173	P51	14,112	5,440	5,440	-	-
2004-2005 Preschool Incentive	84.173	P51	13,651	-	6,435	13,651	7,216
				<u>5,440</u>	<u>11,875</u>	<u>13,651</u>	<u>7,216</u>
Total U.S. Department of Education				<u>175,020</u>	<u>574,156</u>	<u>728,672</u>	<u>329,536</u>
U.S. Department of Homeland Security							
Passed-through Michigan State Police							
Part II - Exercise Grant	97.004	n/a	4,393	-	4,393	4,393	-
Total Expenditures of Federal Awards				<u>\$ 196,656</u>	<u>\$ 784,560</u>	<u>\$ 917,440</u>	<u>\$ 329,536</u>

1. Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to the MDE.
2. The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and are reported in the current year receipts column.
4. Expenditures include spoilage or pilferage.

MILAN AREA SCHOOLS

Notes To Schedule Of Expenditures Of Federal Awards

1. SECTION I - SUMMARY OF AUDITORS' RESULTS

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of Milan Area Schools (the "District"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of Milan Area Schools is defined in Note I of the District's basic financial statements.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting which is described in Note I of the District's basic financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 26, 2005

Board of Education
Milan Area Schools
Milan, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the **MILAN AREA SCHOOLS**, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Milan Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Milan Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

August 26, 2005

Board of Education
Milan Area Schools
Milan, Michigan

Compliance

We have audited the compliance of **MILAN AREA SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Milan Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Milan Area Schools' management. Our responsibility is to express an opinion on Milan Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Milan Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Milan Area Schools' compliance with those requirements.

In our opinion the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Milan Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Milan Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements
noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses? _____ yes X none reported

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)? _____ yes X no

MILAN AREA SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded) FOR THE YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no
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SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



August 26, 2005

To the Board of Education of the
Milan Area Schools
Milan, Michigan

We have audited the financial statements of Milan Area Schools for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated May 10, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Milan Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Milan Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Milan Area School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Milan Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Milan Area School's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Milan Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Milan Area Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Milan Area School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Milan Area Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Milan Area School's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Milan Area School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Milan Area Schools

Comments and Recommendations

For the Year Ended June 30, 2005

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated August 26, 2005 on the financial statements of Milan Area Schools.

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the District's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the District's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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